

Committed to a fair and equitable property tax system for Hoosier taxpayers.

## **Tax Increment Finance (TIF)**

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## **Statewide TIF Impact**



### Statewide TIF Assessed Value (2009 – 2013)

Payable Year	Certified TIF AV	Certified Net AV Post TIF	Total Net AV	TIF AV as % of Total Net AV
2009	\$ 17,100,285,139	\$ 265,629,169,290	\$ 282,729,454,429	6.05%
2010	\$ 18,194,997,892	\$ 266,286,216,726	\$ 284,481,214,618	6.40%
2011	\$ 19,497,993,603	\$ 262,140,785,877	\$ 281,638,779,480	6.92%
2012	\$ 19,041,357,319	\$ 264,619,644,550	\$ 283,661,001,869	6.71%
2013	\$ 19,980,660,473	\$ 263,336,954,551	\$ 283,317,615,024	7.05%

Does not include LaPorte County



### Statewide TIF Dollars (2009 – 2013)

Payable Year	TIR Levy	Incremental Revenue	Total TIF Revenue
2009	\$ 10,587,653	\$ 449,254,137	\$ 459,841,790
2010	\$ 237,907	\$ 497,453,391	\$ 497,691,298
2011	\$ 24,205	\$ 553,721,252	\$ 553,745,457
2012	\$ 0	\$ 536,414,567	\$ 536,414,567
2013	\$ 0	\$ 594,274,329	\$ 594,274,329

Does not include LaPorte County



## **General Overview**



### **General Overview of TIF**

- Tax Increment Financing (TIF) is a government finance mechanism for development and redevelopment which captures increases in taxable assessed value within a **defined area** and then uses property tax revenue derived from these increases to finance public improvements within the specified area.
- Main TIF Statute is Indiana Code 36-7-14.



### "Development and redevelopment"

- IC 36-7-14-2.5
- Public and governmental functions that cannot be accomplished through the ordinary operations of private enterprise.
  - Benefit the public health, safety, morals and welfare
  - Increase the economic well-being of the taxing unit and state
  - Protect and increase property values in the taxing unit and state



#### "Captures increases in taxable assessed value"

- IC 36-7-14-39
- The assessed value that currently exists at the time of establishment of the allocation area becomes the "base assessed value."
  - Conceptually, the taxes paid on the base AV will continue to go to the underlying taxing units.
  - In practice and under certain circumstances, base AV may be diverted to the redevelopment commission.



#### "Captures increases in taxable assessed value"

- IC 36-7-14-39
- Increases in assessed value after development within the allocation area is known as "incremental assessed value."
  - Taxes paid on incremental AV ("tax increment" or "TIF revenues") are directed to the redevelopment commission.



## "Defined area"

- IC 36-7-14-39
- What is commonly referred to as a TIF District is actually known as an "allocation area."
- Allocation area is the part of the wider economic development area or redevelopment project area from which incremental AV can be captured.



# "Finance public improvements within the specified area"

- IC 36-7-14-39
- Tax increment is to be spent within the allocation area from which the money was derived.



### Main Uses of TIF Proceeds

- Pay expenses incurred by the Redevelopment Commission for local public improvements within the allocation area
- Pay principal and interest on bonds and leases incurred for local public improvements within the allocation area
- Reimburse the taxing unit for expenditures made for local public improvements within the allocation area



### **Process for Establishment**



# Who can establish a Redevelopment Commission?

- Counties
- Cities and towns



### **Establishing a Redevelopment Commission**

- A taxing unit that wants to establish a TIF
   District will first establish a Department of Redevelopment.
- This Department will be overseen by a board known as the Redevelopment Commission.



### **Establishing a Redevelopment Commission**

- Redevelopment Commission will have 5 members.
- The county executive (County Commissioners)
  may adopt an ordinance to allow the
  Redevelopment Commission to consist of 7
  members.
- Nonvoting adviser appointed by the executive
  - Member of the school board of a school corporation that includes all or part of the territory served by the redevelopment commission.



## **Declaratory Resolution**

- Redevelopment Commission adopts a resolution declaring that:
  - The area needing redevelopment is a "menace" to the social and economic interest of the unit and its inhabitants. (IC 36-7-14-15)
  - It will be of public utility and benefit to redevelop the area.
  - The area is designated as a redevelopment project area.



## **Declaratory Resolution**

- The date of the declaratory resolution establishes the base year for the allocation area.
- The base assessment for the allocation area becomes the March 1 prior to the date of the declaratory resolution.
  - EXAMPLE:
    - Declaratory Resolution adopted 11/27/2012
    - Base Assessment Date = 3/1/2012
    - Base Year = 2012 Pay 2013



## **Additional Approvals**

 Redevelopment plan must be submitted to both the Plan Commission and the municipal legislative body or county executive for approval.



# Public Hearing and Confirmatory Resolution

- Redevelopment Commission must conduct a public hearing prior to establishing the redevelopment project area.
- If the Redevelopment Commission is also establishing an allocation area, then notice of the public hearing and a fiscal impact statement must be provided to impacted taxing units.
- After public hearing, the Redevelopment Commission may adopt a confirmatory resolution to officially establish the redevelopment project area.



### Term of an Allocation Area

- The term of an allocation area varies depending on when the allocation area was established.
  - Originally: No expiration
  - Mid-1990s: 30 year expiration
  - Mid-2000s: 25 year expiration



## Residential Property

- The treatment of residential property within a TIF district depends on the establishment type and date of the allocation area.
- For economic development areas established prior to July 1, 1995 and redevelopment areas established prior to July 1, 1997, TIF revenues can be captured on residential property.



## Residential Property

- For economic development areas established after July 1, 1995 and redevelopment areas established after July 1, 1997, TIF revenues cannot be captured on residential property.
  - If AV on a residential property increases, the base AV for that property also increases to ensure no capture of TIF revenues.
  - If AV on a residential property decreases, the base AV is NOT adjusted downward.
    - Can take a loss on a residential property.



## Residential Property

- There are also special type of TIFs called "Housing TIFs" which allow for the capture of TIF revenues from residential property.
- These are limited in their scope and use throughout the State.



## Personal Property TIFs

- It is also possible to establish Personal Property TIFs.
- Similar process is followed but instead of designating an area to be included in the allocation, the Redevelopment Commission designates particular taxpayers.



## The Math of TIF



# The Conceptual Math of TIF

Year	Net Assessed Value	Base Assessed Value*	Incremental Assessed Value
2012 Pay 2013 (Base Year)	\$ 100,000	\$ 100,000	\$ 0
2013 Pay 2014	\$ 300,000	\$ 100,000	\$ 200,000
2014 Pay 2015	\$ 500,000	\$ 100,000	\$ 400,000

Assumes all increased assessed value in the allocation area is due to redevelopment



### TIF Neutralization

- Each year, the County Auditor must prepare TIF Neutralization worksheets.
- The goal of the TIF Neutralization is to remove the impact of general reassessment or annual adjustment of assessed values from the calculation of TIF revenues.
- Neutralizations done only for real property TIFs.



- Prior to the Pay 2014 Neutralizations, the Department used the same neutralization form for many years.
- This form had been developed during a time of increasing assessed values and general reassessment occurring once every 10 years.



- The old TIF Neutralization Worksheet had two calculations that were performed:
  - Comparison of TIF Gross AV Change to Countywide Gross AV Change
  - Start from prior year incremental revenues and determine the base AV needed in the ensuing year to continue to generate the same amount of incremental revenues



 Once the old TIF Neutralization Worksheets started to be used annually due to annual adjustments in AV and used in an environment with declining AVs, the base assessed values in TIF districts were impacted by the calculation to a greater extent than previously realized.



- For Pay 2013, there were 1,032
   Neutralization Worksheets filed. Of these,
   287 showed a Base Assessed Value of \$0.
  - 27.8% at \$0 Base AV



### **New TIF Neutralizations**

- For Pay 2014 and forward, statute was changed to allow better protection to the Base AV in the TIF Neutralization process.
- A new form was developed that attempts to better identify changes to assessed value due to annual adjustments or reassessment.



### **New TIF Neutralizations**

- In addition to changing the Neutralization Worksheet, the Department also changed guidance on how TIFs should be reported.
- As a result of this change, the total number of Neutralizations for Pay 2014 is lower.
  - 693 as of January 2, 2014



### **New TIF Neutralizations**

- Of these, 146 are at \$0 Base AV.
  - 21.1% at \$0 Base AV
- This does NOT signify that Base AV was restored to those TIFs that had already had their Base AV reduced to \$0.
  - Simply an outcome of changing the way TIFs are reported.



#### **New TIF Neutralization**

- The Base AV decline has significantly slowed under the new TIF Neutralization Worksheet.
  - For Pay 2013, we saw an average decline of Base AV of 11%.
  - For Pay 2014, as of January 2, 2014, the average decline in Base AV is 1.2%.



# **TIF Reporting**



# TIF Reporting Responsibilities

- Current statute requires multiple reports:
  - Annual Report March 15
  - Calculation of Excess Assessed Value July 15
  - Report to Fiscal Body August 1
  - Fiscal Body Submit Report on Gateway October
     1
  - Disclosure of Contractual Obligations and Debt Service



# Annual Report – March 15

- Filed with the unit executive and on Gateway
- Contents:
  - Names of the qualified and acting commissioners
  - Names of the officers of the Redevelopment Commission
  - Number of regular employees and their salaries or compensation
  - Amount of expenditures made in the preceding year and the general purpose



# Annual Report – March 15

#### Contents:

- An accounting of the tax increment revenues expended by an entity receiving TIF revenues as a grant or a loan
- Amount of funds on hand at the close of the calendar year
- Any other information necessary to disclose the activities of the Commission and the results obtained



#### Calculation of Excess Assessed Value - July 15

 Redevelopment Commission reports to the County Auditor and applicable taxing units any available surplus of TIF AV that can be "released" to the other taxing units.



# Report to Fiscal Body – August 1

- Redevelopment Commission files this report with the unit fiscal body.
- For each TIF District, the report must contain:
  - Revenues received
  - Expenses paid
  - Fund balances
  - Amount and maturity date for all outstanding obligations
  - Amount paid on outstanding obligations
  - List of all parcels, base AV and incremental AV for each parcel



### Fiscal Body to Gateway – October 1

 Fiscal body to file a comprehensive report of the August 1 reports with the Department on Gateway



# Disclosure of Contractual Obligations and Debt Service

- The Department requests that this form is provided to the County Auditor by July 15.
- The information on this form can be used in determining whether or not there is excess AV to be released or if the Redevelopment Commission may need to impose a Tax Increment Replacement (TIR) option if facing a shortfall.



## **TIR Options**

- Tax Increment Replacement (TIR)
  - Impose a tax on the whole redevelopment district
    - The redevelopment district is typically coterminous with the boundaries of the unit, so this would be a tax on the whole city/town in the case of a city/town
    - For counties, the redevelopment district typically will not include incorporated areas that have their own redevelopment district
  - Decrease the base AV in the TIF District
  - Impose a special assessment on the properties in the TIF District



#### **Other TIF Considerations**



- Assumes all increased assessed value in the allocation area is due to the redevelopment
- Freezes the real property tax base
- TIF bonds usually carry higher interest rates and expenses due to their riskier nature.



#### Indiana TIF vs. Other States

- TIF is utilized in many states.
- Each state has its own version of TIF depending on its mix of revenues and how the TIF statutes are structured in that state.
- California, the birthplace of TIF, recently terminated the use of TIF Districts.



#### **Contact Information**

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